

Hungary: Headline inflation peaks at eight-year high

Headline inflation rose again, reaching a level not seen since 2012. But as base effects had a strong impact on that increase, we think inflation peaked in January



People on the Széchenyi Chain Bridge, Budapest

4.7%

Headline CPI (YoY)

Consensus 4.4% / Previous 4.0%

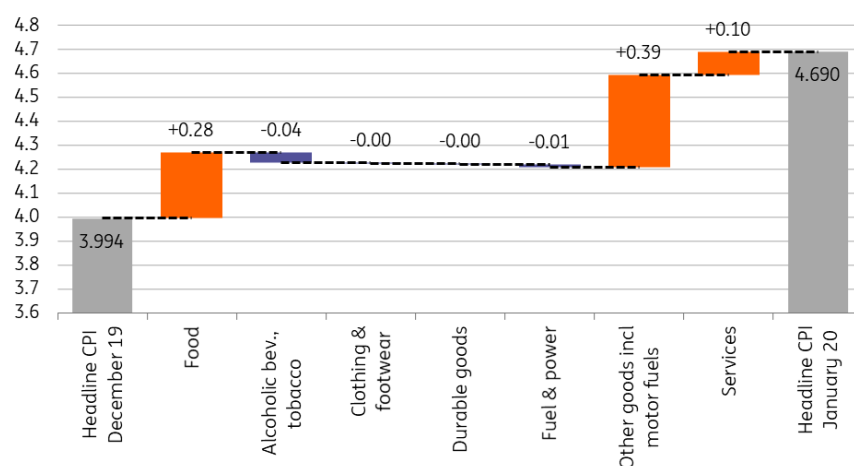
Higher than expected

Headline inflation in January came in at 4.7% year-on-year, a 0.7 percentage point acceleration from December. Although the actual reading came in higher than the market expected, the main drivers behind it were not a major surprise:

- In January 2019, inflation dropped 2.3% month-on-month, providing a low base for this year. In addition, fuel prices rose 2.3% in January this year. These factors resulted in a 0.4 percentage point impact in the yearly inflation reading.

- Inflation in food accelerated to 2.0% month-on-month, slightly stronger than we expected, mostly driven by pork, vegetables and fruits.
- Tobacco products showed a 1.2% monthly price increase as an excise duty hike kicked in. But after a similar move last year, this didn't really play a role in the acceleration in the headline reading.
- Durable goods prices increased by 0.3% on a monthly basis, translating into an almost 1% year-on-year drop, which had a downward effect on core inflation.
- Price changes in services came in a touch stronger than expected at 0.5% MoM. The main causes behind that were price increases in postal services and entertainment services.

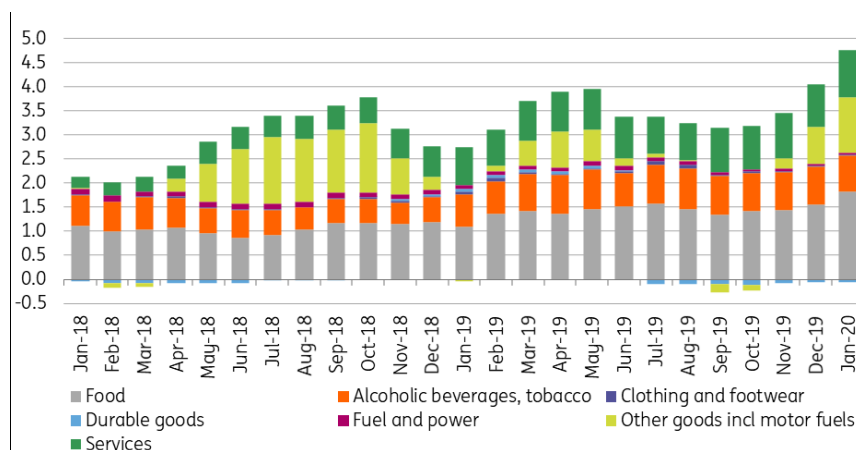
Main drivers of the change in headline CPI (%)



Source: HCSO, ING

Most of the acceleration in the headline indicator stemmed from technical factors and volatile (non-core) items. But underlying inflation was broadly stable, showing only a 0.1ppt acceleration in January after a 0.1ppt deceleration in December. Core inflation (which excludes unprocessed food, energy & administered prices) came in at 4.0% YoY in January. If we adjust this reading for tax changes, core inflation excluding indirect taxes shows a 0.2ppt acceleration to 3.7% year-on-year. This is because of the increase in processed food prices which are sensitive to changes in world market prices, so we can say this is rather temporary.

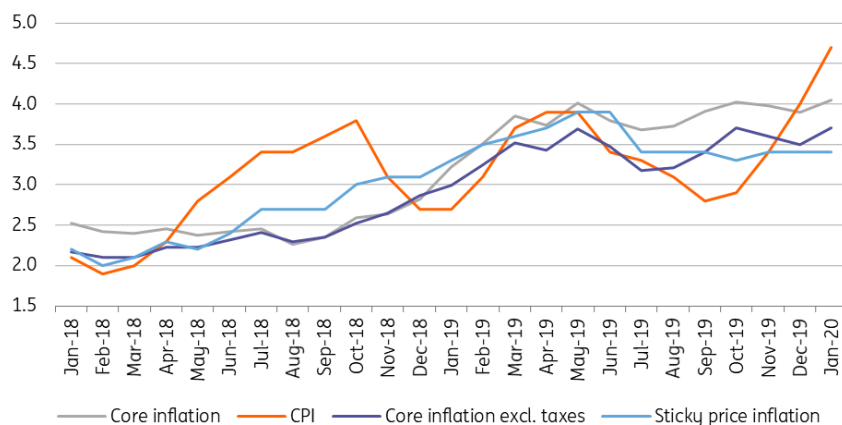
The composition of headline inflation (ppt)



Source: HCSO, ING

Looking ahead, we believe that the worst is now behind us for 2020. The base effect will favour a drop in headline inflation in the coming three to four months. By May, headline CPI should be close to, or above, 3%. Underlying inflation is expected to remain relatively stable with an expected decrease in the second half as economic activity slows. We see the headline CPI at 3.5% YoY in 2020, while our core inflation forecast in 2020 stands at 3.8% YoY.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH

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